

Message Text

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ACTION EB-07

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9297

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E.O. 11652: N/A

TAGS: EAIR

SUBJ: CIVAIR - AIRPORT AND AIR NAVIGATION CHARGES

REF: STATE 49046

1. US/UK INFORMAL TALKS ON UK AIRPORT AND AIR NAVIGATION CHARGES WERE HELD ON MARCH 11 AT DEPARTMENT OF TRADE IN GENERALLY FRIENDLY ENVIRONMENT. MORNING SESSION WAS DEVOTED TO BRITISH AIRPORT AUTHORITY CHARGES; AFTERNOON TO ENROUTE AND TERMINAL NAVIGATION CHARGES, BY CIVIL AVIATION AUTHORITY. BOTH SESSIONS REGARDED AS USEFUL AND INFORMATIVE.

2. BRITISH AIRPORT AUTHORITY (MCLEOD) EXPLAINED THAT BAA IS NATIONALIZED INDUSTRY AND THEREFORE REGARDED AS COMMERCIAL ENTITY WHICH MUST PAY TAXES LIKE ANY OTHER COMPANY ANY WHICH EXPECTED TO EARN A PROFIT ON ITS ACTIVITIES. UKG HAS SET TARGET RATE OF RETURN OF 15.5 PERCENT BEFORE TAXES AND INTEREST. THIS TARGET CALCULATED ON BASIS AVERAGE NET ASSETS WHICH ARE DEPRECIATED STRAIGHT-LINE METHOD FROM HISTORICAL COSTS OF ASSETS AND NOT ON BASIS OF REPLACEMENT CAST OR REASSESSED VALUE. BAA'S REVENUES DERIVED FROM TWO SOURCES: TRAFFIC OPERATIONS AND ANCILLARY ACTIVITIES. LATTER PRICING IS DESIGNED MAXIMIZE

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INCOME FROM THIS SOURCE; TRAFFIC OPERATIONS ARE THEN PRICED

AS A MAKEWEIGHT TO TRY TO REACH TARGET RATE OF RETURN OVERALL. BAA FIGURES THAT RATE OF RETURN IN 1973-4 ON ASSETS REQUIRED FOR TRAFFIC OPERATIONS, AFTER TAXES AND INTERESTS, AMOUNTED TO ABOUT 1.2 PERCENT.

3. BAA REGARDS THREE LONDON AIRPORTS AS A SINGLE SYSTEM AND PRIVES AT ALL THREE ARE SAME, EXCEPT FOR PEAK PRICING AT HEATHROW. PEAK PRICING NOT INTENDED PRIMARILY AS REVENUE"RAISING MEASURE BUT RATHER AS WAY OF REINFORCING AIRLINES SCHEDULING COMMITTIES IN ATTEMPTING SMOOTH OUT PEAKS AND TROUGHS OF ACTIVITY. BAA FEELS PEAK PRICING MUST BE SUBSTANTIALLY HIGHER BEFORE IT WILL HAVE SIGNIFICANT EFFECT IN SMOOTHING OUT PEAK DEMANDS.

4. BAA ADMITS THAT LANDING CHARGES (INCLUDING PASSENGER ELEMENT) ARE BASED ON WHAT IT CALLS ABILITY TO PAY AND COST OF SERVICE PROVIDED ONLY SECONDARY CONSIDERATION. SINCE REVENUES COLLECTED FROM PASSENGERS (AND CARGO) ABOARD AIRCRAFT ARE GREATER ON LONG-HAUL FLIGHTS, THESE FLIGHTS REQUIRED TO PAY HIGHER LANDING CHARGES. BAA EMPHATIC IN STATING CHARGES ARE MADE ON STRICTLY NON-DISCRIMINATING BASIS AND BRITISH AIRWAYS THEREFORE PAYS FAR MORE IN TOTAL THAN ANY OTHER AIRLINE. CRITERIA FOR DETERMINING WHETHER FLIGHT IS DOMESTIC, CONTINENTAL OR INTERCONTINENTAL IS THROUGH-PLANE SERVICE. EXAMPLE BAA CITED TO ILLUSTRATE THIS CONCEPT WAS AIR FRANCE FLIGHT WHICH OPERATES BANGKOK-PARIS (CHANGE OF FLIGHT NUMBER) - LONDON. SINCE AIRLINE PROVIDING THROUGH-PLANE SERVICE BANGKOK-LONDON, AIRCRAFT PAYS INTERCONTINENTAL CHARGE AT HEATHROW. BAA CLAIMS IT "WATCHES LIKE HAWKS" TO TRY TO ENSURE THAT ALL THROUGH-PLANE INTERCONTINENTAL FLIGHTS PAY INTERCONTINENTAL CHARGE REGARDLESS OF ANY FLIGHT NUMBER CHANGES ALONG THE ROUTE. ON OTHER HAND, A FLIGHT FRANKFURT-LONDON (CHANGE OF GUAGE BUT CONTINUING SAME FLIGHT NUMBER) NEW YORK PAYS ONLY CONTINENTAL CHARGE AT LONDON WHEN IT LANDS FROM FRANKFURT BECAUSE PASSENGERS REQUIRED CHANGE AIRCRAFT. WE NOTED, THAT ON THROUGH-PLANE FRANKFURT-LONDON-NEW YORK SERVICE NOT ONLY DOES AIRLINE PAY INTERCONTINENTAL LANDING FEE BUT MUST ALSO PAY INTERCONTINENTAL PASSENGER ELEMENT ON FRANKFURT LIMITED OFFICIAL USE

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PASSENGERS DISEMBARKING LONDON. APPEARED TO BE NO LOGICAL EXPLANATION FOR THIS ANOMALY.

5. BAA SAID WHEN 1974-5 ACCOUNTS ARE CLOSED MARCH 31, IT WILL PROBABLY HAVE EARNED ABOUT 11 PERCENT OF RETURN BEFORE INTEREST AND TAXES. EVEN WITH 35 PERCENT INCREASE IN CHARGES IT EXPECTS ITS RETURN IN 1975-6 TO BE LESS THAN 11 PERCENT. BAA SPOKESMAN SAID ITS CHARGES SUBJECTED TO

PERIODIC REVIEW AND WHEN NEXT REVIEW TAKES PLACE, IT WILL TAKE INTO CONSIDERATION THAT NORTH ATLANTIC SERVICES ARE NOT PROFITABLY AND THEREFORE THESE SERVICES LESS ABLE TO PAY PRESENT INTERCONTINENTAL LANDING CHARGE DIFFERENTIAL WHICH NOW TWICE THAT OF CONTINENTAL FLIGHTS AND FOURNNI TIMES THAT OF DOMESTIC FLIGHTS.

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6. CIVIL AVIATION AUTHORITY SPOKESMAN (RUTHERFORD) SAID CAA POLICY DIRECTED FROM HMG IS TO RECOVER 100 PERCENT OF ITS COSTS BY 1977. IT PRESENTLY EXPECTS TO BE ABLE TO ACHIEVE THIS TARGET EXCEPT FOR ITS EUROCONTROL ACTIVITIES. TERMINAL NAVIGATION CHARGES AT THREE LONDON AIRPORTS WILL PAY ALL ALLOCATED COSTS PLUS INTEREST IN 1975-6. SIMILAR TO BAA PRICING POLICY, CAA ASSESSES CHARGES ON BASIS OF VALUE OF SERVICE PROVIDED AND NOT ON COST OF SERVICE. MEANS OF ACHIEVING THIS IS CHARGE BASED ON ALL-UP METRIC WEIGHT OF AIRCRAFT USING THE SERVICE. IN ADDITION, THERE IS A DIFFERENTIAL BETWEEN DOMESTIC AND INTERNATIONAL FLIGHTS. DOMESTIC FLIGHTS PAY 50 PENCE PER METRIC TON; INTERNATIONAL 58 PENCE. ONLY JUSTIFICATION GIVEN FOR DIFFERENTIAL WAS THAT INTERNATIONAL FLIGHTS IMPOSE SOMEWHAT HEAVIER EQUIPMENT REQUIREMENTS (SUCH AS CAT III SYSTEM) THAN DOMESTIC. ARGUMENT, OF COURSE, IGNORES FACT THAT AIRCRAFT ENGAGED INTERNATIONAL FLIGHTS ARE HEAVIER THAN MOST FLYING DOMESTICALLY AND THREFORE REQUIRED PAY HIGHER COST BASED ON GREATER WEIGHT EVEN WITHOUT PRICING

DIFFERENTIAL.

7. SHANWICK CHARGES ARE ASSESSED PER FLIGHT WITHOUT REFERENCE TO USE OF SERVICE OR WEIGHT OF AIRCRAFT EXCEPT THAT AIRCRAFT UNDER 7.5 METRIC TONS ARE EXEMPT. CAA SAID THAT IN 1971 WHEN IT SET SHANWICK CHARGES IT ESTIMATED LIMITED OFFICIAL USE

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ITS COSTS FOR THIS SERVICE TOO LOW AND IT OVERESTIMATED THE TRAFFIC IT WOULD HANDLE. AS RESULT, IT HAD SUBSTANTIAL SHORTFALL. CURRENT INCREASE BASED ON THIS FACTOR PLUS INFLATIONARY INCREASES AND UNEXPECTED REQUIREMENT TO ABSORB NEW AND INCREASED LORAN COSTS.

8. EUROCONTROL SERVICES NOT TARGETED FOR 30 PERCENT RECOVERY OF 1973 COSTS BUT BECAUSE OF INCREASING COSTS AND DECLINING TRAFFIC RECOVERY WILL BE MORE LIKE 15 PERCENT. CAA PROMISED PROVIDE US WITH FURTHER DATA RELATING COSTS AND REVENUES FROM ITS EUROCONTROL SERVICES.

9. COMMENT. FOREGOING REPORT PREPARED AFTER US DELEGATION DEPARTED LONDON AND IT HAS NOT BEEN CHECKED WITH THEM. ALTHOUGH BAA AND CAA CHARGING POLICY MAY BE CONTRARY TO ICAO RECOMMENDED PRACTICES AND CLEARLY IS STRUCTURED IN SUCH A WAY AS TO IMPOSE VERY HEAVY BURDEN ON LONG-HAUL OPERATIONS, RCAA COULD SEE NO EVIDENCE THAT CHARGES ARE BEING ADMINISTERED IN DISCRIMINATING FASHION. THE PASSENGER ELEMENT CITED IN PARA 4 ABOVE APPEARS TO HAVE NO LOGICAL BASIS AND IF WE PRESS BRITISH ON THIS WE MAY GET IT CORRECTED. MORE FUNDAMENTAL ASPECTS OF CHARGING POLICY, NOTABLY BAA'S THREE-TIER CHARGING SYSTEM AND CAA'S DOMESTIC/INTERNATIONAL DIFFERENTIAL AND CHARGE BASED ON WEIGHT, WILL BE EXTREMELY DIFFICULT IF NOT IMPOSSIBLE TO CHANGE. NEVERTHELESS, IF DATA WHICH US TEAM COLLECTED APPEARS TO WARRANT IT, USG MIGHT WISH TO CONSIDER MORE FORMAL REPRESENTATIONS ON CHARGING POLICY. TO BE REALISTIC, HOWEVER, WE DO NOT BELIEVE IT LIKELY THAT BAA COULD AFFORD TO GIVE UP THREE-TIER SYSTEM. IT MIGHT NOT BE COMPLETELY COSE-MINDED HOWEVER, TO POSSIBILITY OF RESTRUCTURING DIFFERENTIALS WITHIN THREE-TIER FRAMEWORK. SIMILARLY, IT HIGHLY UNLIKELY THAT CAA WOULD ABANDON WEIGHT-BASED CHARGING. HOWEVER, THEY MIGHT CONSIDER ELIMINATION OR REDUCTION OF DOMESTIC/INTERNATIONAL DIFFERENTIAL ON TERMINAL NAVIGATION CHARGES.

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